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*REPORT TO THE COMMITTEE  
ON FINANCE  
UNITED STATES SENATE*

Expenditures For Social Services  
Provided Under Various Titles  
Of The Social Security Act

B - 164031(3)

Social and Rehabilitation Service

Department of Health, Education, and Welfare

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

**093492**

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MAY 2, 1973



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D C 20548

B-164031(3)

The Honorable Russell B. Long  
Chairman, Committee on Finance  
United States Senate

Dear Mr Chairman

As requested by the Committee on Finance on April 13, 1973, this is our report on expenditures for social services provided under titles I, X, XIV, and XVI and parts A and B of title IV of the Social Security Act. The Federal Government pays \$3 for every \$1 States spend on these services. These programs are administered at the Federal level by the Social and Rehabilitation Service (SRS) of the Department of Health, Education, and Welfare (HEW). The Committee requested this information for consideration during the hearings scheduled for May 8, 1973, on S. 1220--a bill to limit the authority of the Secretary of HEW to change social service regulations.

Our report presents information on

- the type of State social service programs financed with Federal funds,
- which States account for most of the recent significant increases in service expenditures, and
- the impact proposed revisions to Federal social service regulations might have on the States' social service programs.

We reviewed social service expenditures and related operations in Louisiana, Mississippi, and Texas. We also reviewed cost studies of social services for fiscal years 1971 and 1972 made by a national public accounting firm under contract to SRS. The firm's studies were made at selected locations and the results were projected nationwide. Time constraints did not permit us to audit the contract study findings or obtain formal comments from appropriate HEW or State officials on this report.

#### BASIS FOR EXPENDITURE DATA

Neither HEW nor most State accounting and management information systems furnish data needed to identify the cost of each type of social service provided to the various categories of beneficiaries--present, past, or potential welfare recipients

HEW, through SRS, contracted with Touche Ross & Co to develop cost information on social services for fiscal years 1971 and 1972. Using sampling techniques and time study procedures, Touche Ross developed national estimates of costs for types of services for fiscal year 1971 by statistically projecting its analyses of cost information gathered from 30 local welfare agencies. To develop national estimates for fiscal year 1972, the firm generally used cost information from the 10 States which had the largest increases in service expenditures from fiscal year 1971 to fiscal year 1972.

The Touche Ross data is, to our knowledge, the only information available which indicates national costs of providing specific social services. Although the Touche Ross findings are relatively consistent with our findings in Louisiana, Mississippi, and Texas, we have certain observations regarding the report which do not affect the overall findings but could affect the specific cost projections. (See appendix )

#### MOST EXPENDITURES FOR CHILD-RELATED SERVICES

Federal regulations in effect during fiscal years 1971 and 1972 did not clearly define which services are eligible for Federal reimbursement or who can receive such services.<sup>1</sup> States have received Federal matching funds for any services intended to assist present, past, or potential welfare recipients to achieve self-support or to maintain or improve their living conditions or family life.

Even though States have had considerable latitude in determining what services would be provided, most Federal and

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<sup>1</sup>In February 1973 the Secretary of HEW proposed revisions to Federal regulations governing the social services programs. These proposed regulations more clearly define the types of social services eligible for Federal matching and who can receive them. See pp. 13 to 20 for a discussion of the possible impact of the proposed regulations on the States.

State expenditures in fiscal years 1971 and 1972 were for child care and child-related services. This would be expected since about 80 percent of all welfare recipients receive assistance under the Aid to Families with Dependent Children (AFDC) program

### Findings

Most expenditures for social services in Louisiana, Mississippi, and Texas for fiscal years 1971 and 1972 were for services provided to AFDC recipients under provisions of title IV-A and for child welfare services (CWS) provided under provisions of title IV-B. Services provided to recipients under the adult welfare programs (aid to the aged, blind, and disabled) accounted for less than 19 percent of total services expenditures in Mississippi and Texas. Louisiana did not have a services program for the adult categories. Combined Federal and State expenditures for the three States are shown below

<u>Program</u>	Service expenditures by fiscal year			
	<u>1971</u>		<u>1972</u>	
	(thousands)		(thousands)	
AFDC and CWS	\$30,817	98 8%	\$92,474	94 6%
Adult	<u>370</u>	<u>1 2</u>	<u>5,307</u>	<u>5 4</u>
	<u>\$31,187</u>	<u>100</u>	<u>\$97,781</u>	<u>100</u>

About 32 percent of fiscal year 1972 expenditures were for salaries of welfare department personnel and related administrative expenses. These personnel serve as the link between welfare recipients and available services resources in the community. The three States do not allocate these costs to specific services or programs. Welfare department personnel who provide services directly to families under the AFDC program, for example, generally will attempt to assist in solving any family problem--such as a need for family counseling, job counseling or training and referral, nutritional guidance, and money management. Also the same service worker generally provides services for family members receiving old age or disability benefits. In these States the service worker does not account separately for time spent in each service or assistance program category.

Since Federal regulations do not require such cost allocation, most States' records do not furnish the type of data

needed to identify program services cost by type of service or program. Consequently, we were unable to identify the specific services or programs to which these personnel devoted the majority of their time. Developing a usable method and preparing useful cost data of this type were the prime tasks undertaken by Touche Ross. However, each State we visited provided, either directly or by contract, child day care, child protection, family planning, and employment services.

#### Touche Ross findings

Touche Ross estimated that total Federal and State expenditures for social services in fiscal years 1971 and 1972 were primarily for AFDC or CWS as shown below.

<u>Program</u>	Estimated expenditures by fiscal year			
	<u>1971</u>		<u>1972</u>	
	(thousands)		(thousands)	
AFDC (title IV-A)	\$ 788,643	50%	\$1,761,868	64%
CWS (title IV-B)	596,812	38	532,324	19
Adult (titles I, X, XIV, and XVI)	<u>196,368</u>	<u>12</u>	<u>476,827</u>	<u>17</u>
	<u>\$1,581,823</u>	<u>100</u>	<u>\$2,771,019</u>	<u>100</u>

Touche Ross also estimated that over 60 percent of these expenditures were for child foster care, child care, and other child-related services. The following table presents its estimates of the Federal and State amounts spent on specific services for each year.

<u>Expenditure category</u>	<u>Estimated expenditures by fiscal year</u>			
	<u>1971</u>		<u>1972</u>	
	(thousands)		(thousands)	
Child foster care	\$ 611,656	39%	\$ 712,415	26%
Child care	268,467	17	432,884	16
Other child-related services	186,259	12	531,118	19
Work Incentive (WIN) and non-WIN employment and training	129,217	8	242,917	9
Homemaker and chore services	87,974	6	119,137	4
Alcoholism and drug addiction	13,914	1	162,693	6
Community adjustment and mental health/retardation	4,000	.2	175,517	6
Remaining categories (note a)	<u>280,336</u>	<u>16 8</u>	<u>394,338</u>	<u>14</u>
	<u>\$1,581,823</u>	<u>100</u>	<u>\$2,771,019</u>	<u>100</u>

<sup>a</sup>Includes such services as general information and referral, family planning, and adult protection

SERVICES EXPENDITURES CONCENTRATED IN  
FEW STATES WITHOUT  
CORRESPONDING INCREASES IN SERVICES

Federal expenditures for social services increased dramatically--from \$738 million in fiscal 1971 to \$1 67 billion in fiscal 1972, 126 percent in 1 year. In October 1972 the Congress--to hold down the anticipated additional cost growth of the program--enacted legislation which placed a \$2 5 billion ceiling on the amount of Federal funds that could be spent on such services.

Increases in expenditures from fiscal years 1971 to 1972 were concentrated in relatively few States and generally were not used to provide more services or to provide existing services to more recipients. Rather most of the increases resulted from welfare agencies' claims, for the first time, of Federal matching funds for existing State-funded social services programs operated by other State agencies (purchase-of-service agreements)

Findings, increased expenditures

The three States we visited showed marked differences in their increases in social services expenditures in fiscal year 1972. The following table shows these differences

<u>State</u>	<u>Federal and State expenditures</u>		<u>Percent of increase</u>	<u>Percent of increase</u>	<u>Percent of increase accounted for by purchase-of-service agreements with other State agencies</u>
	<u>Fiscal year 1971</u>	<u>Fiscal year 1972</u>			
	————(millions)————				
Louisiana	\$12 4	\$39.2	\$26.8	216	83
Texas	17 2	73.0	55.8	324 5	86
Mississippi	1 56	2 34	0 8	50	0

Louisiana and Texas substantially increased their fiscal year 1972 expenditures primarily through purchase-of-service agreements with other State agencies without correspondingly increasing the services provided. The Mississippi welfare department did not enter into purchase-of-service agreements with other State agencies, and expenditures increased at a rate substantially lower than the rates in Louisiana and Texas.

An analysis of Federal and State increases in Louisiana and Texas is shown in the following table

Category of increase	Federal and State expenditures by fiscal year					
	1971		1972		Increase	
	<u>Amount</u>		<u>Amount</u>		<u>Amount</u>	
	(millions)		(millions)		(millions)	
Louisiana						
Purchased services from other State agencies	\$ -	-	\$22 1	56 2%	\$22 1	82 2%
Welfare agency personnel and administrative costs	10 5	84 6%	12 7	32 5	2 2	8 4
Purchased services from private agencies	<u>1 9</u>	<u>15 4</u>	<u>4 4</u>	<u>11 3</u>	<u>2 5</u>	<u>9.4</u>
Total	<u>\$12 4</u>	<u>100</u>	<u>\$39 2</u>	<u>100</u>	<u>\$26 8</u>	<u>100</u>
Federal funds	\$ 9.2		\$29 1		\$20 2	
Texas						
Purchased services from other State agencies	\$ -	-	<sup>a</sup> \$48 1	65 9	\$48 1	86 2
Welfare agency personnel and administrative costs	13 9	80 8	17 7	24 2	3 8	6 8
Purchased services from private agencies	<u>3 3</u>	<u>19 2</u>	<u>7 2</u>	<u>9 9</u>	<u>3 9</u>	<u>7 0</u>
Total	<u>\$17 2</u>	<u>100</u>	<u>\$73 0</u>	<u>100</u>	<u>\$55 8</u>	<u>100</u>
Federal funds	\$12 9		\$54 8		\$41 9	

<sup>a</sup>Represents fiscal year 1972 fourth quarter only. Texas has submitted to HEW claims for additional Federal funds of \$92 million for additional expenditures under purchase-of-service agreements for the first three quarters of fiscal year 1972. HEW disallowed this claim in January 1973.



Of the Federal and State expenditure of \$22 million reported by Louisiana in fiscal year 1972 as services purchased from other State agencies, HEW has disallowed \$12.7 million of the \$16.6 million Federal share on the basis that the services were not eligible for Federal matching. HEW has requested that the State repay the \$12.7 million to the Federal Government. As of April 1973 Louisiana had not repaid the money. It retained the \$16.6 million in an interest-bearing account pending an answer from HEW regarding the State's request to be provided with the legal and regulatory basis for the disallowance.

Louisiana has claimed and received Federal funds of only \$362,000 for purchase of services from other State agencies for the first 6 months of fiscal year 1973. State welfare department officials said, however, they expect claims for services provided under contract by other State agencies to increase substantially during the last half of the year. Officials of the Departments of Education and Hospitals, from which the welfare department will purchase substantial services, said that, although Federal funds received to date had not been used to expand services, they expected to expand their service programs in fiscal year 1974.

In Texas, most of the \$34.6 million in Federal matching funds for purchased services from other State agencies in fiscal year 1972 were being used to defray State costs of operating the welfare department in fiscal year 1972. During fiscal year 1973 Texas has used most of the additional fiscal year 1973 Federal matching funds, about \$39 million, to meet operating expenses, rather than to increase the number of services provided or the number of recipients receiving services. Texas State welfare department officials advised us that as of September 1973 the department plans to use most additional Federal funds received under purchase-of-service agreements with other State agencies to provide new services in fiscal year 1974 if the plan is approved by the current session of the State Legislature.

Welfare department officials in Louisiana and Texas confirmed that increases in agency personnel and administrative costs did not mean that the number of persons served and the number of services provided increased. Rather, they attributed the increase to an overall increase in the cost of operating and administering the social services program.

Welfare department officials in both States stated that the portion of the increase in expenditures for purchase of services from private agencies did represent an expansion of

the social services programs. Generally, these expenditures were for providing existing services to more recipients or for establishing new service programs. Time constraints did not permit us to determine the additional number of persons served by services purchased from private agencies.

Touche Ross findings, expenditure increases

Touche Ross estimated that Federal expenditures have increased primarily because State welfare agencies have purchased services from other State agencies. Details of the increases in Federal and State expenditures for the AFDC and adult programs are shown below

<u>Category of increase</u>	Estimated expenditures by fiscal year					
	<u>1971</u>		<u>1972</u>		<u>Increase</u>	
	(millions)		(millions)		(millions)	
Purchased services from other State agencies	\$ 50.0	5%	\$ 832.3	37%	\$ 782.3	62%
Welfare agency personnel and administrative cost	718.2	73	966.6	43	248.4	20
Purchased services from private agencies	<u>216.8</u>	<u>22</u>	<u>439.8</u>	<u>20</u>	<u>223.0</u>	<u>18</u>
Total	<u>\$985.0</u>	<u>100</u>	<u>\$2,238.7</u>	<u>100</u>	<u>\$1,253.7</u>	<u>100</u>
Federal funds	\$692.4		\$1,623.7		\$ 931.3	

Touche Ross concluded that the services purchased from other State agencies, which accounted for 62 percent of the increased expenditures, generally did not represent additional services. Rather, it noted that most of these services previously had been fully State funded but that in fiscal year 1972 they were claimed by States for the first time as social services eligible for Federal matching under provisions of various titles of the Social Security Act. Touche Ross did not suggest that these expenditures were improper, rather that it did not find any evidence that such expenditures had expanded the services program.

According to Touche Ross

- The increase in expenditures for personnel and administrative costs, 20 percent of the total increase, represented only modest increases in social services staffing
- Between 50 and about 70 percent of the increases in personnel and administrative costs were due to (1) normal salary and administrative cost increases and (2) changes in staffing arrangements which permitted increased Federal reimbursements

Touche Ross did not estimate the level of increase in services represented by purchase-of-services agreements with private agencies. However, it noted that not all increases in expenditures for child care under private contracts--\$88 million--can be considered an expansion of services. It noted that part of the increased costs in 1972 occurred because some States changed the basis for claiming Federal matching for child-care services. Previously such States provided cash grants to recipients so they could obtain child-care services. Cash grants are reimbursed at a rate of about 50 percent. In fiscal year 1972 the States began to purchase such services, making them eligible for 75 percent reimbursement.

Touche Ross findings, concentration of expenditure increases

Touche Ross observed that 10 States accounted for 84 percent of the increase in social services expenditures from fiscal year 1971 to fiscal year 1972. New York accounted for over 54 percent of the national increase. The following table shows Touche Ross estimates of the concentration of increases in expenditures for the AFDC and adult programs. Child welfare expenditures remained relatively constant.

<u>State</u>	<u>Social service expenditures by fiscal year</u>		<u>Increase</u>
	<u>1971</u>	<u>1972</u>	
	<u>————(millions)————</u>		
States visted by Touche Ross			
New York	\$ 94.9	\$ 770.1	\$ 675 2 711%
California, Illinois, Texas, Pennsylvania, Florida, Michigan, Wisconsin, Washington, and Georgia (9 States)	496 6	879.2	382 6 77
States surveyed by Touche Ross (note a)			
New Jersey, Oregon, Massachusetts, Minnesota, Maryland, Ohio, Colorado, North Carolina, Louisiana, and Virginia (10 States)	205 5	312 4	106 9 52
Other 34 States and jurisdictions (note b)	<u>188 0</u>	<u>277 0</u>	<u>89 0</u> 47
Total	<u>\$985 0</u>	<u>\$2,238 7</u>	<u>\$1,253 7</u> 127
States visited by Touche Ross (New York and next 9 States) as a percent of total	60%	74%	84%

<sup>a</sup>Survey by questionnaire and phone

<sup>b</sup>Based on State data reported to HEW

Touche Ross also observed that the concentration of expenditures was not closely related to the number of welfare recipients in each State. Specifically, 10 States accounted for 74 percent of the fiscal year 1972 service expenditures but had only about 55 percent of the Nation's public assistance recipients. Moreover, New York, California, and Illinois accounted for 55 percent of all service expenditures in fiscal year 1972 but only 32 percent of the Nation's welfare recipients.

Touche Ross findings on concentration of expenditure increases are more significant considering that the major reason for increases in fiscal year 1972 was purchase-of-services agreements with other State agencies which did not result in an expansion of services. Touche Ross noted that 96 percent of the expenditures for services purchased from other State agencies were concentrated in 10 States. These findings suggest that a few States have obtained significant advantages by claiming ongoing services provided by State agencies as eligible for Federal social services matching funds.

UNCERTAINTY AS TO ACTUAL INCREASE  
IN FEDERAL EXPENDITURES

The \$1.67 billion Federal expenditure for social services in fiscal year 1972 is based on total payments to the States for that period reported by SRS as of April 1973. The final amount of Federal expenditures for services during fiscal year 1972 could change, however, because of States' pending claims for additional Federal matching for certain services purchased by welfare departments from other State agencies.

The cited expenditure excludes some States' claims for reimbursement for services purchased during the fourth quarter of fiscal year 1972 which HEW has disallowed. It also includes reimbursements of at least \$12.7 million to Louisiana for services HEW claims were ineligible for Federal matching. In addition, HEW has received, or expects to receive, claims from 15 States--totaling about \$1.6 billion--for additional Federal matching for purchased services provided before April 1973. Some of these services were provided during fiscal year 1972.

In December 1972, the Administrator, SRS, issued, in a memorandum to the SRS Regional Commissioners, more precise guidelines for determining whether claims--retroactive, current, or prospective--were eligible for Federal matching. The major provisions of the guidelines specified that, for HEW to pay such claims, services must have been delivered

--under an existing purchase arrangement with the State welfare department and

--after the SRS-approved State plan had been placed in operation with respect to the expenditures

On April 20, 1973, an SRS official informally advised us that

- the total amount of retroactive claims paid, if any, for purchased services is not readily determinable because HEW is reviewing such claims and its records are not set up to isolate such data,
- since the fourth quarter of fiscal year 1972, HEW has not knowingly paid such claims or has taken action to recover Federal matching funds already paid to States which, upon review, HEW decided were not spent for valid social services,
- Minnesota and Idaho have instituted litigation to obtain Federal funds totaling \$42 million and \$1.3 million, respectively, as reimbursements for prior periods,
- the fiscal year 1972 payments to the States are subject to review and audit as to eligibility using the December 1972 statement as a definition or clarification of some parts of the law and regulations, and
- litigation is likely to cause considerable delay in determining actual Federal expenditures for services provided in fiscal year 1972

#### IMPACT OF PROPOSED FEDERAL REGULATIONS ON SERVICES PROGRAMS

##### Background

On February 16, 1973, the Secretary of HEW proposed revisions to Federal regulations governing the social services programs. The proposed regulations were designed to hold down the program's growth by more clearly defining the types of services eligible for Federal matching and who can receive them. SRS officials said HEW did not have reliable estimates on the possible impact of the proposed regulations in terms of who would be deprived of services or the amount of Federal matching funds States would lose. The Secretary of HEW announced the contents of the final regulations on April 26, 1973.

HEW received 208,515 comments from individuals and organizations on the proposed regulations. We did not review all of these comments. Rather our discussion on the possible impact of the proposed regulations on State social services

programs is based on our analysis of certain States' comments<sup>1</sup> and on our work in Louisiana and Texas. We did not have time to obtain data on the impact of Mississippi's program nor did we verify the States' estimates of the possible impact of the proposed regulations as stated in their comments to HEW

On the basis of comments received, HEW has revised certain aspects of the proposed regulations. We did not have time to assess the impact of the final regulations

#### Major proposed changes to services programs

The proposed regulations affect several critical aspects of the social services programs. Major changes appear to involve (1) limitations on the extent to which past and potential welfare recipients will be eligible for services, (2) no longer allowing donated private funds to be considered as part of the States' matching cost, (3) limitations on the types of services that qualify for Federal matching, such as day care and mental health care, and (4) restrictions on the extent to which State welfare departments can purchase services from other State agencies

#### Revised eligibility requirements for former and potential recipients

Current regulations permit Federal matching for social services provided to past and potential welfare recipients. "Past recipients" are defined as those persons who received welfare payments at any time during the past 2 years. "Potential recipients" are defined as those persons who might receive welfare payments at any time during the next 5 years. The proposed regulations restrict the time periods for which such persons can be classified as past or potential recipients. Specifically, the proposed regulations provide that

--The time period for considering a past recipient eligible for services is reduced from 2 years to 3 months

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<sup>1</sup>We were able to locate replies to HEW from only 21 States. Eleven of these partially quantified the possible impact that proposed regulations could have on the number of persons eligible for services and the amount of Federal funds they will receive. Ten others commented on the possible impact in general terms only.

--The time period for considering a potential welfare recipient eligible is reduced from 5 years to 6 months. Moreover, his income cannot exceed 133-1/3 percent of a State's assistance payment level

State welfare departments' estimates of impact

The potential results of these restrictions are obvious. Three States--which account for \$420 million of the \$2.5 billion in Federal matching funds that could be made available to States in fiscal year 1973--quantified the possible impact of this proposal. They commented that restricted eligibility requirements would reduce the number of persons who would receive social services and consequently the States' share of Federal matching funds.

The three States estimated that about 137,000 persons will be deprived of services and that they would lose Federal funds of about \$76.5 million. We noted, however, that at least two States double-counted persons who would no longer be eligible for services. This could occur where a recipient was receiving more than one social service, such as homemaker services and day-care services, but, due to revised eligibility requirements, the recipient would no longer receive either of these services.

In addition, six States commented that services provided and recipients served would be reduced.

Applying the 133-1/3-percent limitation to all States' payment levels, we determined that 19 States had such low assistance payment levels that no persons would be eligible for services as potential welfare recipients.

Impact on two States that we visited

Louisiana

Welfare department officials said they were unable to provide a breakdown of those persons receiving services into categories of either current, past, or potential welfare recipients. They estimated, however, that almost all persons receiving services provided directly by the welfare department were current welfare recipients.

State data on recipients in selected, contracted day-care programs in April 1973 showed that about 50 percent of the 246 participants were potential welfare recipients. Because



of time constraints we did not determine how many of these potential recipients would not be eligible for such services under the proposed regulations

In July 1972, the largest AFDC amount paid (payment level) to a family of four in Louisiana was \$108 a month. A family of four earning more than \$144 a month would not qualify for services as a "potential" welfare family if the proposed 133-1/3 limitation were applied. However, under Louisiana's estimate of need, the payment standard of \$193 a month, they would be eligible for welfare payments. Therefore, Louisiana families earning more than the assistance payment level but less than the State standard would not be eligible for social services as "potentials" but could apply for welfare payments as current recipients. Also, a family of four would not qualify for services under any category if the members earned as little as \$1 more than the \$193 State standard

#### Texas

Welfare department officials could not furnish a precise breakdown of persons receiving services into categories of current, former, or past recipients. However, February 1973 welfare department data on services provided by the welfare department or by private or some other public agencies showed the following

	Recipients		
	<u>Total current, former, and potential</u>	<u>Former and potential</u>	
Services provided by welfare department			
AFDC (families)	44,086	1,659	4%
Adult	23,693	2,325	10
Services provided by other agencies			
Private agencies	18,153	8,268	46
Public agencies (note a)	98,885	39,520	40

<sup>a</sup>Estimate for all of fiscal year 1973

Texas largest AFDC grant paid to a family of four in July 1972 was \$148. A family of four earning more than \$197 a

month would be ineligible for services as a "potential" welfare case if the proposed 133-1/3-percent limitation were applied. The assistance payment standard in Texas is \$197 a month. Therefore, families in Texas earning as little as \$1 more than the State standard would not be eligible for social services.

#### Final regulations

On April 26, 1973, the Secretary of HEW announced that the income level of eligibility for potential persons eligible for AFDC will be 150 percent of the State's financial assistance payment standard. With respect to eligibility for day care, the final regulations authorize use of a State fee schedule for families with incomes above the 150-percent level but not in excess of 233-1/3 percent of the State's financial assistance payment standard.

The income limit for potential applicants for financial assistance under the Adult programs has been raised to 150 percent of the combined total of the Supplementary Security Income benefit level provided for under title XVI of the Social Security Act (as amended by Public Law 92-603) and the State's Supplementary benefit level (if any).

#### Prohibition of Federal matching for donated private funds

Current regulations permit States to include donated private funds for services as part of the State's cost for determining the amount of Federal matching funds. The proposed regulations specifically prohibit including donated private funds or in-kind contributions when determining the State's costs for services when claiming Federal reimbursement.

#### State welfare agencies' estimate of impact

Three States quantifying the possible impact of the proposal on their programs estimated that about 40,000 persons would be deprived of services and that they would lose about \$18 million in Federal matching funds.

#### Impact on two States we visited

##### Louisiana

Louisiana estimated that donated funds of about \$5 million would not be considered part of the State's social services costs and, as a result, that the following number of persons would be deprived of services in fiscal year 1974:

<u>Type of service</u>	<u>Deprived persons</u>
Day care	2,580
Family planning	16,800
Delinquency prevention	<u>660</u>
Total	<u>20,040</u>

Texas

In its letter to HEW objecting to the proposed regulations, Texas estimated that about 32,000 persons would be deprived of services by elimination of contracts with 42 providers of services who use private funds. The major services affected and the estimated number possibly deprived of services are as follows:

<u>Type of service</u>	<u>Deprived persons</u>
Mental health	12,234
Family planning	9,422
Day care	<u>3,879</u>
Total	<u>25,535</u>

Final regulations

On April 26, 1973, the Secretary of HEW announced that HEW will permit the continued matching of donated private funds.

Limitation on types of services eligible for Federal matching

Current regulations permit the States to claim a wide range of services as eligible for Federal matching. The proposed regulations specify certain services that States must provide. These are foster care, family planning, and protective services for AFDC recipients and at least one service, such as homemaker services, to adult recipients. The States can also provide and receive Federal matching for specific services such as child-care, homemaker, and health-related activities. Only the services in these categories are eligible for Federal matching. To minimize the chance of States' misunderstanding what activities are eligible for Federal matching, the proposed regulations define each of the eligible services more clearly than do current regulations.

State welfare agencies' estimate of impact

The effect of these proposed changes varied significantly from State to State. Based on our analysis of State replies to HEW, the major impact of the proposed change in terms of reduced recipients and Federal dollars will occur in the following services (1) day care, (2) foster care, (3) protection, (4) mental health and mental retardation, and (5) alcoholism and drug addiction

For example, day-care services for mothers on welfare will be limited to care for purposes of enabling her to participate in employment, training, or needed services. The cost of day care provided by reason of the mother's absence, illness, or disability will no longer be eligible for Federal matching

Five States quantified the possible impact of this proposal on their programs. They estimated that about 250,000 persons would be deprived of services and that the States would lose Federal matching funds of about \$108 million

Impact on two States we visited

The proposed regulations will eliminate the States' ability (under current regulations) to claim child welfare service staff costs (title IV-B) under the AFDC program (title IV-A) if 85 percent of the children served by such services are AFDC recipients. As a result of this change, Louisiana estimated that it will lose Federal funds of about \$2.8 million. Texas estimated that it will lose Federal funds of about \$6 million. The States will have to make up this loss with their own funds if they continue to provide certain child welfare services.

The proposed regulations limit day-care services to children of parents who are working, training for work, or receiving needed services. Louisiana welfare officials were unable to say precisely how many children were receiving day care because their parents were in training or working. However, of the 3,200 children receiving day-care services in September 1972 through purchase-of-service agreements, the parents or caretakers of 40 percent (1,300) were not training or working or receiving needed services. These children will not be eligible for day-care services if the proposed regulations are approved. Most of the 5,408 children receiving day care in Texas under the contracted services program are receiving the service because their parents or caretakers were

employed or training. Therefore, these children will continue to be eligible to receive these services under the proposed revisions.

#### Final regulations

On April 26, 1973, the Secretary of HEW announced that the final regulations will not change the specific services that States must provide to AFDC and Adult recipients. The optional services States can provide to AFDC recipients are day care for children, education, certain employment services (non-WIN), health-related services, homemaker, home management, and other functional educational services, housing improvement services, and legal and transportation services.

The definition of day-care services for children was revised so Federal matching will be available to enable the caretaker relatives to participate in employment or training, or because of the death, continued absence from the home, or incapacity of the child's mother and the inability of any member of such a child's family to provide adequate and necessary care and supervision for such child. Day care may also be provided, when appropriate, for eligible children who are mentally retarded.

#### Restriction on purchase-of-service contracts

The proposed regulations will restrict the extent to which State welfare departments can purchase services from other State agencies. Purchase of services will be allowed only if new services are provided or if more recipients will be provided existing services. This change will preclude welfare departments in all States--including Louisiana, Mississippi, and Texas--from purchasing from other State agencies services previously financed entirely with State funds when such action did not result in an actual increase in services or in recipients eligible to receive them.

#### State welfare agency estimates of impact

Only one State quantified the possible impact of this proposed change. This State estimated that it would lose about \$7.8 million in Federal matching funds. We were unable to determine the amount of Federal matching funds that Louisiana, Mississippi, and Texas will lose as a result of this proposal.

Final regulations

On April 26, 1973, the Secretary of HEW announced that the final regulations will allow purchase of services from other State agencies only if new services are provided or if more recipients will be provided existing services. Federal financial participation in the new purchases after March 1973 will be available only for services beyond those represented by fiscal year 1972 expenditures of the provider agency. This requirement will be phased out gradually and will be eliminated as of July 1, 1976.

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We trust this report will assist the Committee during its hearings on the social services programs. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James B. Axtell". The signature is fluid and cursive, with a large initial "J" and a stylized "A".

Comptroller General  
of the United States

## EVALUATION OF COST ESTIMATION METHODOLOGY

## USED BY TOUCHE ROSS

Our review of the Touche Ross methodology used to allocate national social services costs by service classification consisted only of an evaluation of the information contained in the reports submitted by Touche Ross to SRS. We did not (1) review the supporting documentation for figures contained in the report, (2) make independent tests to verify information contained in the Touche Ross report, or (3) discuss our findings with Touche Ross representatives.

Its representatives concluded that their methodology yielded reasonable approximations of national social service expenditures. However, because of the problems discussed below, we are unable to state positively that the data reported by Touche Ross is truly representative of national social service expenditure patterns.

- 1 Touche Ross appears to have relied heavily on SRS compilations of costs reported on State claims reports (Form OA 41 7). However, its study indicated that these reports might not be reliable since it found about \$78 million on unreported costs for the adult and AFDC services programs at the 30 sites which formed the basis for national projections. This represented about 20 percent of the costs of these programs at the 30 sites. If this proportion on unreported costs prevailed nationwide, total national costs for the various social services categories would be understated if computed on the basis of State reports submitted to SRS.
- 2 The Touche Ross report states that the 30 sites selected for survey were not statistically representative of social services agencies across the country and that, therefore, measures of the reliability of its projections are not available. The report indicates that the sites visited exceed the national averages for both social services expenditures per public assistance recipient and expenditures per capita and explained these differences as follows

"The social service needs of recipients were probably more pronounced in urban areas and the sites studied, and thus the higher expenditure levels could have indicated corresponding commitments to meet these needs

"The sites had greater ability to fund service programs from state and local sources since the underlying wealth of their population as measured by higher per capita income was greater than the rest of the country.

"Many of the sites had strong local traditions which emphasized the provision of social services "

These sites appear to be representative of the larger and more developed social service agencies and, consequently, the relationships existing in these sites may not be nationally typical because of economies of scale, specialization, and other attributes of large organizations

- 3 Touche Ross applied the allocation percentages determined in its time study<sup>1</sup> to the expenditures of the last quarter of fiscal year 1971 and projected the results to the entire fiscal year. The report does not indicate whether the expenditures of this quarter are typical of the entire fiscal year and, if not, whether appropriate adjustments were made

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<sup>1</sup>The time study technique is an acceptable method for estimating workload distributions. It usually results in a reasonably representative estimate of how workers allocate their time among various activities